

Internal Revenue Service, Treasury

§ 31.3406(a)-2

- (1) In general.
- (2) Exceptions for payments made in property.
- (c) Trusts.
- (d) Adjustment of prior withholding by middleman.
- (e) Conversion of amounts paid in foreign currency into United States dollars.
 - (1) Convertible foreign currency.
 - (2) Nonconvertible foreign currency. [Reserved]
- (f) Coordination with other sections.
- (g) Tax liabilities and penalties.
- (h) To whom payor is liable for amount withheld.

§ 31.3406(h)-3 Certificates.

- (a) Prescribed form to furnish information under penalties of perjury.
 - (1) In general.
 - (2) Use of a single or multiple Forms W-9 for accounts of the same payee.
- (b) Prescribed form to furnish a noncertified taxpayer identification number.
 - (c) Forms prepared by payors or brokers.
 - (1) Substitute forms; in general.
 - (2) Form for exempt recipient.
 - (d) Special rule for brokers.
 - (e) Reasonable reliance on certificate.
 - (1) In general.
 - (2) Circumstances establishing reasonable reliance.
 - (f) Who may sign certificate.
 - (1) In general.
 - (2) Notified payee underreporting.
 - (g) Retention of certificates.
 - (1) Accounts or instruments that are not pre-1984 accounts and brokerage relationships that are post-1983 brokerage accounts.
 - (2) Accounts or instruments that are pre-1984 accounts and brokerage relationships that are not post-1983 brokerage accounts.
 - (h) Cross references.

§ 31.3406(i)-1 Effective date.

[T.D. 8637, 60 FR 66112, Dec. 21, 1995, as amended by T.D. 8734, 62 FR 53493, Oct. 14, 1997; T.D. 9010, 67 FR 48759, July 26, 2002]

§ 31.3406(a)-1 Backup withholding requirement on reportable payments.

(a) *Overview.* Under section 3406, a payor must deduct and withhold 31 percent of a reportable payment if a condition for withholding exists. *Reportable payments* mean interest and dividend payments (as defined in section 3406(b)(2)) and other reportable payments (as defined in section 3406(b)(3)). The conditions described in paragraph (b)(1) of this section apply to all reportable payments, including reportable interest and dividend payments. The conditions described in paragraph (b)(2) of

this section apply only to reportable interest and dividend payments.

(b) *Conditions that invoke the backup withholding requirement*—(1) *Conditions applicable to all reportable payments.* A payor of a reportable payment must deduct and withhold under section 3406 if—

(i) The payee of the reportable payment does not furnish the payee's taxpayer identification number to the payor, as required in section 3406(a)(1)(A) and § 31.3406(d)-1; or

(ii) The Internal Revenue Service or a broker notifies the payor that the taxpayer identification number furnished by its payee for a reportable payment is incorrect, as described in section 3406(a)(1)(B) and § 31.3406(d)-5.

(2) *Conditions applicable only to reportable interest or dividend payments.* A payor of a reportable interest or dividend payment must deduct and withhold under section 3406 if—

(i) The Internal Revenue Service or a broker notifies the payor that its payee has underreported interest or dividend income, as described in section 3406(a)(1)(C) and § 31.3406(c)-1; or

(ii) The payee fails to certify to the payor or broker that the payee is not subject to withholding due to notified payee underreporting, as described in section 3406(a)(1)(D) and § 31.3406(d)-2.

(c) *Exceptions.* The requirement to withhold does not apply to certain minimal payments as described in § 31.3406(b)(4)-1 or to payments exempt from withholding under §§ 31.3406(g)-1 through 31.3406(g)-3.

(d) *Cross references.* For the definition of *payor*, see § 31.3406(a)-2. For the definition of *taxpayer identification number*, see § 31.3406(h)-1(b).

[T.D. 8637, 60 FR 66114, Dec. 21, 1995]

§ 31.3406(a)-2 Definition of payors obligated to backup withhold.

(a) *In general.* *Payor* means the person that is required to make an information return under section 6041, 6041A(a), 6042, 6044, 6045, 6049, 6050A, or 6050N, with respect to any reportable payment (as described in section 3406(b)), or that is described in paragraph (b) of this section.

(b) *Persons treated as payors.* The following persons are treated as payors for purposes of section 3406—

§ 31.3406(a)-3

26 CFR Ch. I (4-1-03 Edition)

(1) A grantor trust established after December 31, 1995, all of which is owned by two or more grantors (treating for this purpose spouses filing a joint return as one grantor);

(2) A grantor trust with ten or more grantors established on or after January 1, 1984 but before January 1, 1996;

(3) A common trust fund; and

(4) A partnership or an S corporation that makes a reportable payment.

(c) *Persons not treated as payors.* A person on the following list is not treated as a payor for purposes of section 3406 if the person does not have a reporting obligation under the section on information reporting to which the payment relates—

(1) A trust (other than a grantor trust as described in paragraph (b)(1) or (2) of this section) that files a Form 1041 containing information required to be shown on an information return, including amounts withheld under section 3406; or

(2) A partnership making a payment of a distributive share or an S corporation making a similar distribution.

(d) *Effective date.* The provisions of this section apply to payments made after December 31, 2002.

[T.D. 9010, 67 FR 48759, July 26, 2002]

§ 31.3406(a)-3 Scope and extent of accounts subject to backup withholding.

A payor who is required to withhold under § 31.3406(a)-1 must withhold—

(a) On the accounts subject to withholding under § 31.3406(a)-1 (b)(1)(i) or (b)(2)(ii); and

(b) On the accounts subject to withholding under § 31.3406(a)-1(b)(1)(ii) or (b)(2)(i), as described under § 31.3406(d)-5 (relating to notification of incorrect TIN) or § 31.3406(c)-1 (relating to notified payee underreporting), respectively.

[T.D. 8637, 60 FR 66114, Dec. 21, 1995]

§ 31.3406(a)-4 Time when payments are considered to be paid and subject to backup withholding.

(a) *Timing—(1) In general.* If backup withholding is required under section 3406 on a reportable payment (as defined in section 3406(b)), the payor must withhold at the time it makes the payment to the payee or to the

payee's account that is subject to withholding. Amounts are considered paid when they are credited to the account of, or made available to, the payee. Amounts are not considered paid solely because they are posted (e.g., an informational notation on the payee's passbook) if they are not actually credited to the payee's account or made available to the payee. See paragraph (c) of this section for the timing of withholding by a middleman.

(2) *Special rules for dividends.* For purposes of section 3406 and this section—

(i) *Record date earlier than payment date.* In the case of stock for which the record date is earlier than the payment date, the dividends are considered paid on the payment date.

(ii) *Dividends paid in corporate reorganizations.* In the case of a corporate reorganization, if a payee is required to exchange stock held in the former corporation for stock in the new corporation before the dividends that have been paid with respect to the stock in the new corporation will be provided to the payee, the dividend is considered paid on the date the payee actually exchanges the stock and receives the dividend.

(b) *Amounts reportable under section 6045—(1) In general.* Notwithstanding paragraph (a) of this section, in the case of a transaction reportable under section 6045 (except in the case of forward contracts (including foreign currency contracts), regulated futures contracts, and security short sales), the obligation to withhold under section 3406 arises on the date the sale is entered on the books of the broker or the date the exchange occurs as provided in § 1.6045-1(f)(3) of this chapter. A broker (in its capacity as payor) is not required, however, to satisfy its withholding liability until payment is made. See § 31.3406(b)(3)-2(b)(2) for special rules applicable to forward contracts (including foreign currency contracts), regulated futures contracts, and security short sales.

(2) *Special rule for interest accrued on bonds.* For purposes of determining the time that interest is considered paid and subject to withholding under section 3406 when bonds are sold between interest payment dates, the portion of